



**DEPARTMENT OF REVENUE
DIVISION OF MOTOR VEHICLE
AND DRIVERS LICENSING**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2002-25
March 19, 2002
www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

March 2002

The following areas of concern were noted in an audit of the Department of Revenue, Division of Motor Vehicle and Drivers Licensing.

The Customer Assistance Bureau (CAB) supervises approximately 170 fee offices and 11 branch offices throughout the state. Although the CAB's function is to monitor the field offices, the CAB employs approximately fifty revenue licensing technicians who process drivers license transactions in the fee offices. Based upon the current number of revenue licensing technicians, resources totaling approximately \$1.2 million will be provided to the fee offices through revenue licensing technicians' salaries and benefits during the year ended June 30, 2002. The fee agent contract provides that the fee agents shall provide adequate staff to care for the business demands of the office. The fee agents receive the contracted agent fee for transactions processed by the revenue licensing technicians. In addition, the CAB assigns twelve field representatives to provide on-site monitoring of the fee and branch offices. Numerous field representative reports indicate the field representatives performed fee agent duties. By performing fee office duties, the CAB is diverting state resources to fee agents who already receive a fee for each transaction processed.

Information on the General Registration System (GRS) is not always accurate and up-to-date. A record of all Missouri motor vehicle transactions is maintained on the GRS. As of July 2001, approximately 549,000 motor vehicle transactions were on the Error File and, as a result, were not recorded on the GRS. Approximately 306,000 of the transactions on the Error File were at least ten months old. Failure to resolve transactions on the Error File results in incomplete and inaccurate GRS records, which are accessed by various law enforcement officials, and increases the risk that misappropriation of funds by field offices will not be detected in a timely manner.

State law allows leasing companies to have the option of paying sales or use tax on items to be leased or rented at the point of registration or to pay sales or use tax as the items are being leased or rented. The current system of reporting does not require the companies to identify the particular items on which the sales and use taxes were collected on lease/rental proceeds. As a result, the Division of Taxation cannot effectively monitor whether the state is collecting at least as much sales tax by allowing lease/rental companies to collect and submit taxes on the amount charged for each rental or lease agreement as would have been collected if the sales or use taxes had to be paid upon titling the vehicles.

Concerns were also noted related to inventory procedures, unreported transactions, motor vehicle processing procedures, and field monitoring procedures.

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DEPARTMENT OF REVENUE
DIVISION OF MOTOR VEHICLE AND DRIVERS LICENSING

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Bob Holden, Governor
and
Carol Russell Fischer, Director
Department of Revenue
and
Raymond Hune, Director
Division of Motor Vehicle and Drivers Licensing

We have audited the Department of Revenue, Division of Motor Vehicle and Drivers Licensing. The scope of this audit included, but was not necessarily limited to, the years ended June 30, 2001 and 2000. The objectives of this audit were to:

1. Review certain management practices and financial information for compliance with applicable constitutional provisions, statutes, regulations, and administrative rules.
2. Review the efficiency and effectiveness of certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed applicable legal provisions, regulations, contracts, policies and procedures, and other pertinent documents, and interviewed department personnel.

As part of our audit, we assessed the division's management controls to the extent we determined necessary to evaluate the specific matters described above and not to provide assurance on those controls. With respect to management controls, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation and we assessed control risk.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in the audit of the Department of Revenue, Division of Motor Vehicle and Drivers Licensing.

The accompanying Management Advisory Report presents our findings arising from our audit of the Department of Revenue, Division of Motor Vehicle and Drivers Licensing.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

October 12, 2001 (fieldwork completion date)

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MANAGEMENT ADVISORY REPORT –
STATE AUDITOR’S FINDINGS

DEPARTMENT OF REVENUE
DIVISION OF MOTOR VEHICLE AND DRIVERS LICENSING
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Motor Vehicle Processing Section Examiner and Auditor Procedures
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The Department of Revenue operates branch offices and contracts with agents throughout the state to operate fee offices which provide licensing services to Missouri residents. The Motor Vehicle Processing (MVP) Section within the Drivers and Vehicle Services Bureau consists of examiners and auditors who review and process field office motor vehicle remittances, or shipments. Examiners are responsible for reviewing each transaction included in the shipments and keying the transactions onto a Division of Motor Vehicle and Drivers Licensing (DMV) computer system which updates the General Registration System (GRS). Auditors are responsible for reviewing the various shipment reports and maintaining inventory records for the field offices. During our review of MVP Section examiner and auditor procedures we noted the following:

- A. There is not always documentation that alterations to critical items on transaction applications, such as validation, purchase calculation, inventory items sold, or fees and taxes paid, are investigated. The MVP section's written procedures require examiners to review the transactions closely for any fraud related activity and to list alterations to validations, fees, and local taxes as red flags to potential fraudulent activity. During our review, we noted several transactions with hand alterations to the sales price, amounts charged, validation, and inventory items. There was no documentation that these transactions had been investigated by an examiner or by DMV management. The department's Internal Audit Section has noted misappropriation in some field offices in which transactions were altered.

Failure to identify and investigate application alterations increases the possibility that misappropriation of funds will not be detected on a timely basis.

- B. Local sales taxes assessed on the sale of motor vehicles are not adequately reviewed by the MVP section examiners. The Department of Revenue collects local sales taxes for the registration of motor vehicles on behalf of cities and counties. Local tax rates assessed on the sale of vehicles are based on the residence of the customer. Our review of local sales taxes noted the following:

- 1) Due to inadequate information on the title application, the MVP section examiners do not review local sales taxes charged to customers residing in metropolitan areas which have numerous localities. The application for Missouri title and license does not require the customer to document the locality in which the customer resides. Although the application requires the customer's mailing address, this address is not always the locality to which the taxes are due. For example, we noted a transaction from a

customer with a St. Louis mailing address which indicated the customer lived inside the city limits. The local sales tax rate assessed was for Affton, Missouri; however, there was not sufficient information on the title application to verify the customer resides in Affton. We have also received concerns from cities where transactions have been identified for which local sales tax monies were incorrectly assessed and distributed to a different locality.

Requiring the customer to specifically document the locality in which they reside would allow the MVP section examiners to determine whether local sales taxes are correctly assessed.

- 2) Several transactions reviewed included incorrect sales tax calculations. These errors appear to be primarily due to the field office applying an incorrect local sales tax rate (such as an old rate) or charging the county sales tax rate although the transaction indicated the customer lives inside the city limits. MVP procedures require examiners to review the local sales tax rates charged for most cities in the state; however, these errors were not noted by the examiners. Local sales tax collections should be reviewed to ensure the correct amount of sales taxes are collected.

- C. Transactions that do not meet legal or technical requirements are not always rejected as required by MVP section procedures. Rejected transactions are returned to the field offices to be corrected. Eight of forty-one transactions reviewed contained errors, but were not rejected to the field offices for correction. These transactions included errors in sales tax calculations and inadequate supporting documentation for "other credits". These transactions should have been rejected as required by MVP section procedures. Failure to reject transactions containing errors prevents the department from ensuring all monies due to the state are collected. In addition, rejected transactions serve as a training tool for field offices to prevent similar errors in the future.

Division personnel indicated it is not cost effective to reject certain transactions; however, if this is the case, at a minimum, these errors should be tracked and discussed with field offices which have a significant number of errors.

- D. Two of three transactions reviewed which included "other credits", totaling \$1,400, did not have documentation supporting the credits. Taxpayers can receive credit against the purchase price of a vehicle for the purpose of calculating the amount of sales taxes due. Credits are given for rebates, vehicle trade-ins, or "other credits" such as replacement vehicle credit, total loss credit, or credit for the sale of farm products.

The DMV has identified "other credits" for which there is no supporting documentation as a red flag to potential fraudulent activity, and requires the

examiners to be alert for these items. Unsupported "other credits" increases the risk that misappropriation of funds will not be identified on a timely basis.

- E. Written procedures for auditing shipment reports and maintaining inventory records are inadequate and outdated. In addition, some procedures performed by the auditors, such as reconciling inventories and processing unreported transactions, are not documented in a procedures manual. The primary responsibilities of the MVP section auditors include reviewing and verifying shipment accounting reports, transaction summary reports, inventory reports, office bank reports, and various other shipment reports; and maintaining field office inventory records. Several changes in auditing procedures have been made; however, the written procedures have not been updated to reflect these changes. As a result, the procedures performed by the auditors are not consistent. The DMV should maintain updated documented auditor procedures to ensure that personnel are adequately informed and essential functions are consistently performed.

WE RECOMMEND the department:

- A. Follow procedures to review field office transactions for alterations to critical items, such as validation, purchase calculation, inventory items sold, or fees and taxes paid. Alterations should be investigated and resolved in a timely manner.
- B.1. Redesign the application for Missouri title and license so that the locality in which the customer lives is clearly documented.
- B.2. Ensure examiners are following established procedures for reviewing local sales taxes collected.
- C. Reject all transactions that do not meet legal or technical requirements as required by MVP section procedures. If it is not deemed cost effective to reject transactions with certain types of errors, such errors should be tracked and discussed with the field offices.
- D. Ensure all transactions involving "other credits" contain adequate supporting documentation.
- E. Update written auditor procedures and ensure the appropriate personnel are aware of such procedures.

AUDITEE'S RESPONSE

- A. *The Drivers and Vehicle Services Bureau (DVSB) management agrees that alterations of critical items on transaction applications should be investigated when the alteration could result in possible fraud or the applicant avoiding the payment of taxes, fees or penalties that are due to the State of Missouri. The DVSB will continue to daily*

investigate alterations of transaction applications when the alteration may be an indication of fraud or the loss of state revenue. The DVSB reviewed all of the exceptions noted by the State Auditor; in no case was the alteration found to be an indicator of fraud or forfeited revenue.

- B. The DVSB management agrees that the correct taxes and fees should be assessed to each title and registration application. Management disagrees that the title application should be redesigned, as the current Missouri title application contains an area for the applicant to indicate his or her county of residence as well as whether the applicant resides in or outside of the city limits. The field and central office staff process the application with the information that is provided by the applicant. The new Field Automation System for Title and Registration (FASTR) will address this concern by systematically determining the correct site code to be used when assessing fees and taxes, based on the applicant's address. It is anticipated FASTR will be implemented in the Central Office by the end of calendar year 2002. Planned implementation of the FASTR system in the field offices should begin in calendar year 2003, and be concluded in calendar year 2004.*
- C. The DVSB management agrees that transactions not meeting the legal or technical requirements should be rejected and returned to the originating field office for resolution. If it is not cost effective to process specific reject types, DVSB will discuss those issues with the Customer Assistance Bureau (CAB) staff on a periodic basis.*
- D. DVSB management agrees and currently has an operating procedure that addresses processing transactions with "other credits."*
- E. DVSB management agrees with this recommendation and will draft comprehensive auditing procedures. DVSB will finalize and implement the auditing procedures by July 1, 2002.*

2. Customer Assistance Bureau (CAB) Procedures

The CAB supervises approximately 170 fee offices and 11 branch offices throughout the state. During our review of CAB procedures, we noted the following:

- A. Although the CAB's function is to monitor the field offices, the CAB provides significant resources directly to the fee agents. The CAB employs approximately fifty revenue licensing technicians who process drivers license transactions in the fee offices. Based upon the current number of revenue licensing technicians and the current compensation rate, the CAB will provide resources to the fee offices totaling approximately \$1.2 million, through revenue licensing technicians' salaries and benefits, during the year ending June 30, 2002. The fee agent contract states that, "...the fee agent shall provide adequate staff to care for the business demands of the fee office...". The fee agent receives the contracted agent fee for transactions processed by the revenue licensing technicians.*

In addition, the state assigns twelve field representatives to provide on-site monitoring of the fee and branch offices. We noted numerous field representative reports indicating the field representatives performed fee agent duties, such as processing motor vehicle and drivers license transactions and answering the telephone. This condition impairs the field representative's independence and reduces the time available to monitor the fee offices.

State resources should be used efficiently and effectively. By performing fee office duties, the CAB is diverting state resources to fee agents who already receive a fee for each transaction processed. In addition, an effective monitoring system requires that the oversight authority be independent of the entity being monitored.

It should be noted that the department has reduced the number of licensing technicians from approximately eighty to fifty positions through reallocation of the positions to branch offices and attrition since December 2000.

- B. There are no written guidelines for determining the frequency of field visits to each office. Criteria such as transaction volume, number of rejected and long/short transactions, changes in field office personnel, complaints received, past experience, and other available information should be considered when determining the frequency of field office visits. Written guidelines are necessary to ensure field representatives consistently and effectively determine the frequency of field office visits.
- C. Field representatives document procedures performed and concerns noted during visits to field offices on standardized report forms. These reports are submitted to the CAB for review. During our review of the field representative reports, we noted the following concerns:
 - 1) Many field representative reports we reviewed were incomplete. There was no documentation that some essential monitoring procedures, such as audits of shipments and reviews of inventory records, deposit timeliness, and rejected applications were performed.
 - 2) There is not always documentation that concerns noted on field representative reports were investigated and resolved by the field representative or the CAB. Many reports indicated significant problems in the office such as numerous rejects, failure to maintain current inventory records, and failure to charge title penalties.

One report, dated January 11, 2000, indicated the fee office had withheld two transactions from shipments; however, there was no documentation of follow up related to this concern. The CAB was aware of a previous misappropriation in this office which occurred approximately two years earlier in which a former manager withheld transactions for several

months. Other field representative documentation dated March 30, 2000, indicated tabs were issued out of sequential order similarly to the procedures of the previous manager. The CAB performed cash counts in June and November 2000. During the November 2000 cash count, it was discovered that additional transactions had been withheld. An audit performed by the Internal Audit Section in November 2000 found misappropriation by the fee office manager. Had the concerns noted on the January field representative report been investigated, the misappropriation in this office may have been identified in a more timely manner.

Failure to require complete and accurate field representative reports and investigate and resolve concerns noted by the field representatives in a timely manner provides little assurance that monitoring of field offices is effective in preventing or identifying misappropriation of funds.

- D. CAB personnel indicated field representatives are required to perform surprise cash counts in field offices on an annual basis. During our review of these cash counts, we noted the following:
- 1) A cash count was not performed during the year ended June 30, 2001, for eight of eleven offices reviewed. In addition, a cash count was not performed for four of these offices during the previous fiscal year. Failure to perform cash counts and compare deposits to shipment reports increases the possibility that misappropriation of funds will not be detected on a timely basis.
 - 2) There is no documentation that the CAB investigates concerns noted during cash counts. In four of five office cash counts reviewed which were performed during the two years ended June 30, 2001, the field representative noted problems such as short deposits, transactions not listed, cashing of personal checks, incorrect charging of fees, failure to follow DOR check acceptance policies and endorse checks, and failure to maintain a consistent beginning cash balance. Although CAB personnel indicated these problems were addressed, there was no documentation that CAB followed up on or discussed the problems with the fee agent or branch manager. Concerns should be investigated and discussed with the fee agent or branch manager, if necessary, to ensure corrective action is taken.
- E. The CAB does not follow-up on late deposits made by fee agents. The fee agent contract requires fee agents to make deposits no later than the close of the second banking day following receipt. There was a total of 1,425 late deposits during the period of August 2000 through June 2001, with 25 offices having 10 or more late deposits during this period. The fee agent contract provides a late charge of \$50 for each day a deposit is late. The CAB does not enforce the late deposit penalty.

In addition, the field representatives are not provided with copies of late deposit reports which could be investigated during field office visits, although the Field Representative Procedures require field representatives to discuss any late deposit reports with the agent or office manager, and report conclusions.

Late deposits can be one indication of a shortage and have been noted in at least two fee offices in which the DMV has identified misappropriation of funds. Failure to investigate and take corrective action related to late deposits by fee offices increases the risk that misappropriation of funds will not be detected on a timely basis.

- F. The DOR generates monthly fee agent long/short reports (amounts due to or from fee offices). Short balances may result from unaccounted for inventory, incorrect deposits, and transactions which are not listed on the transaction summary report. The DOR sends billing statements to the fee offices for amounts due and provides a report of long/short balances to the CAB. The fee agent contract requires the offices to resolve short balances by the due date indicated in the billing statement and provides a \$50 late charge for each day past the due date that the short balance is not resolved. During our review of the long/short billing process, we noted the following:

- 1) The CAB does not enforce the late charge for unresolved short balances. We reviewed billings for five months during the two years ended June 30, 2001. For the months reviewed, fifty-one offices did not meet the deadline indicated in the billing statement to resolve the short balance; however, a late charge was not assessed. Instead of assessing the late charge, the CAB sent warning notices to the offices which did not resolve their short balance within 10 days, allowing up to an additional week and a half past the original due date to resolve the short balances. For the month of April 2001, 11 offices owing a total of \$1,650 did not meet the deadline indicated in the billing statement. In an effort to ensure that funds due to the state are received in a timely manner, penalties should be assessed as provided in the fee agent contract.
- 2) Field representatives do not investigate significant items comprising the field office long/short balance. Field representatives are provided with a monthly report of the long/short balance of each office, however, they are not provided with details of the transactions included in the long/short balance.

Unaccounted for inventory, incorrect deposits, and not listed transactions can be indications of misappropriation of funds. These items were included in long/short balances in at least seven of the fee offices in which misappropriation of funds has been identified by the department. Failure to provide available information to field representatives reduces the effectiveness of monitoring.

- G. There was no documentation that field representatives performed follow up procedures on recommendations made by the department's Internal Audit Section for the fourteen audit reports we reviewed. Field representatives receive a copy of each internal audit report and are instructed to follow up on findings included in the audit reports. Department personnel indicated follow up is often communicated by telephone calls and electronic mail. Documentation is necessary to ensure follow up on internal audit recommendations is performed and to effectively communicate results. Failure to follow up on audit report recommendations reduces the effectiveness and usefulness of the audits.
- H. Unidentified monies collected by fee offices are ultimately retained by the fee agents instead of the department. Fee agents deposit daily collections into DOR collection accounts. Unidentified monies deposited are included in the offices' long balances, instead of recorded under a separate accounting revenue code. Through the current long/short billing process, the long balance consisting of the unidentified monies is later offset when the office makes a short deposit; therefore, the amount of the unidentified monies are recovered by the fee agent. Some offices retain unidentified monies instead of depositing the monies into the DOR collection account. In eight audit reports reviewed, the Internal Audit Section noted fee agents depositing these monies into their personal fee agent account or the office petty cash fund.

Fee agents are authorized to collect a contracted fee; however, there is no provision for fee agents to retain unidentified monies. Unidentified monies should be deposited into the DOR collection account and reported under a separate accounting revenue code. The proper disposition of these monies should be determined.

- I. The CAB field procedure manual documenting procedures to be followed by field offices and field representatives is incomplete and outdated. The procedure manual does not address several field office issues including selling inventory items in sequential order, maintaining cash drawers on an imprest basis, and segregating each business day's receipts; as well as field representative procedures for auditing shipments, performing cash counts, reviewing rejected transactions and inventory records, and following up on internal audit findings. In addition, we noted several procedures that are no longer followed and procedures that have changed, but have not been updated in the written policy. To adequately inform field offices and CAB personnel of current procedures, such procedures should be documented and provided to all necessary parties.

WE RECOMMEND the department:

- A. Discontinue the practice of providing state employees to perform fee agent duties.
- B. Develop guidelines for determining the frequency of field office visits by field representatives.

- C. Require field representatives to perform and document all essential monitoring procedures. In addition, concerns noted by field representatives should be investigated and resolved in a timely manner. Documentation of follow up procedures should be maintained.
- D. Establish procedures to ensure periodic cash counts are performed. In addition, concerns noted during cash counts should be investigated and resolved in a timely manner. Documentation of follow up action should be maintained.
- E. Ensure late deposits are investigated and resolved in a timely manner. Penalties for late deposits should be assessed as provided in the fee agent contract.
- F. Develop procedures to ensure short balances are investigated and resolved in a timely manner. In addition, detailed information regarding long/short balances should be provided to field representatives to assist them in more effectively monitoring field offices.
- G. Establish procedures to ensure follow up on internal audit report findings is performed and documented on a timely basis.
- H. Develop procedures for accounting for unidentified monies collected by the fee offices. In addition, the division should consult legal counsel to determine the appropriate disposition of these monies.
- I. Ensure the CAB field procedure manual is complete and maintained on a current basis.

AUDITEE'S RESPONSE

- A. *The Department of Revenue will study and review current practices when considering if this recommendation should be implemented. This review will focus on two main points: 1) The assistance licensing technicians assigned to fee offices provide in allowing the Department to meet it's strategic planning objectives, and 2) the impact this recommendation will have on our fee agent partners. The Department of Revenue would like to note that since October 12, 2001, when the Office of the State Auditor completed field work for this audit, the Department has again reduced the number of licensing technicians assigned to fee offices from 50 to 45.5.*
- B. *CAB management agrees with this recommendation. The CAB has been reviewing this issue for several months in conjunction with efforts to develop performance management criteria for field representatives. The CAB anticipates having the plans and guidelines developed by the end of calendar year 2002.*
- C. *CAB management agrees with this recommendation. A team is currently in place to evaluate the existing field representative report and make improvements to increase*

accountability of both the field representatives and license offices. CAB expects to have the new reporting and monitoring systems in place by the end of fiscal year 2002.

- D. CAB management agrees with this recommendation. By improving the field representative report mentioned in 2.C. and improving internal tracking systems, CAB will ensure annual cash counts are completed. CAB will have a monitoring and tracking system in place by the end of calendar year 2002.*
- E. CAB management agrees with this recommendation and will continue to investigate late deposits, and, when applicable, assess penalties as provided in the fee agent contract.*
- F. CAB management agrees with this recommendation and will continue to monitor long and short reports monthly.*
- G. CAB management agrees with this recommendation. This issue is being addressed in conjunction with item 2.D.*
- H. CAB management agrees with this recommendation. CAB currently has a team that is researching and evaluating this issue. The team's recommendations are due in June of this year, and implementation should occur by the end of calendar year 2002.*
- I. CAB management agrees with this recommendation. CAB began updating this manual several months ago. Because of the complexity of the task and the volume of detail required, CAB anticipates this process will take twelve to eighteen months to complete.*

3. Unreported Transaction Procedures

Field offices are required to submit daily transaction summary reports listing each transaction processed that day and included in the daily deposit. The department has identified some transactions that were processed by the field offices but not reported on the transaction summary reports. Many of these transactions involved misappropriation by the field offices. Field offices are billed when unreported transactions are identified. During our review, we noted the following:

- A. The DMV does not compare transactions sent in for processing to transaction summary reports. In April 2000, the Internal Audit Section reviewed one shipment from each fee agent and found that 1.2 percent of the shipments reviewed contained discrepancies with regard to completeness. The Internal Audit Section did not consider the discrepancies significant in terms of monetary impact. As a result of this study and time constraints, the DMV discontinued comparing transactions to the daily transaction summary reports.*

Division personnel indicated that most unreported transactions are not sent to the division by field offices for processing and would not be identified by a comparison of transactions to the transaction summary reports. The division

primarily relies on a delinquent fee process to identify unreported transactions. However, during our review, we noted transactions which had been submitted for processing which were not reported on the transaction summary reports or identified through the delinquent fee process.

In addition, we noted transactions which were sent in for processing, but were reported on a subsequent transaction summary report and inventory items which were not accurately reported on the transaction summary reports. Since the DMV does not compare transactions to the transaction summaries, these errors were not discovered. Failure to compare transaction applications to the transaction summary report increases the risk that errors and misappropriations will not be detected on a timely basis.

We agree that comparing every transaction to the transaction summary report is not cost effective; however, alternative procedures such as spot checks or control totals should be considered to ensure transactions are properly reported.

- B. There are no written procedures outlining the process to investigate and resolve potential unreported transactions. Such items are identified by the MVP Section auditors during the semi-annual inventory reconciliations; by the CAB Public Service Section based on concerns from customers regarding their title applications; and by the Motor Vehicle (MV) Record Center based on research requests received from the Division of Taxation and Collection which handles delinquent fees. Our review of the procedures in each of these areas noted the following:

- 1) The Division of Taxation and Collection receives documentation of transactions from customers as proof of payment. Copies of the transactions are forwarded to the MV Record Center to be traced to the transaction summary reports and the GRS. However, the MV Record Center does not compare all of these transactions to the transaction summary reports to ensure they were adequately reported.
- 2) MVP Section auditors do not provide copies of the unreported transactions noted during inventory reconciliations to the MVP Section team leaders to ensure the transactions are entered on the GRS and titles are issued if necessary.

Written procedures are necessary to inform all parties of their responsibilities. Since many DOR employees may handle potential unreported transactions, procedures should be developed to ensure transactions are properly reported and entered onto the GRS. Failure to investigate and resolve potential unreported transactions increases the risk that misappropriation of funds will not be detected on a timely basis.

WE RECOMMEND the department:

- A. Develop procedures to ensure transactions are accurately recorded on transaction summary reports.
- B. Develop written procedures to be followed for potential unreported transactions. These procedures should require the applicable parties to trace the transactions to the transaction summary reports and to ensure the transactions are recorded on the GRS, if necessary.

AUDITEE'S RESPONSE

- A. *DVSB management agrees with this recommendation. The DVSB will develop an auditing procedure to monitor this issue when the inventory reconciliations are completed. An auditor will review the inventory reconciliation in order to observe any indication that a field office is not appropriately accounting for transaction items. If the auditor finds inappropriately handled items, the auditor will work with their assigned processing team members to monitor the field office. The procedure will be completed and implemented on or before July 1, 2002.*
- B. *The DVSB management agrees with this recommendation. This item will be addressed in conjunction with item 3.A.*

4. Inventory Procedures

Motor vehicle inventory records for all branch and fee offices are maintained by the division on the DMVI system, a computerized inventory system. All inventory items, including license plates, permits, decals, placards, and tabs issued to and sold by the field offices are reported to the DMV on daily inventory reports and recorded on the DMVI system by MVP Section auditors. Field offices are required to perform semi-annual physical inventory counts which are reconciled to the DMVI system by MVP Section auditors. During our review of inventory procedures, we noted the following:

- A. Numerous errors are made on daily inventory reports submitted by the field offices. As a result, many items issued to the field offices are unaccounted for on the initial inventory reconciliations performed by the MVP Section auditors. Auditors make numerous adjustments to the DMVI system when the inventory discrepancies are resolved. Our review of five inventory reconciliations noted 17,315 adjustments totaling approximately \$877,000 made by the auditors. Although some of these adjustments were made as a result of auditor posting errors, many were due to incorrect inventory reports submitted by the field offices.

During our review, we observed auditors spending significant amounts of time researching inventory item discrepancies on the inventory reconciliations,

reviewing correspondence from the field offices regarding the inventory discrepancies, and making adjustments to the DMVI system. The CAB field procedures manual requires the field offices to reconcile physical inventory reports to perpetual records prior to submitting the physical inventory to the DMV; however, this is apparently not always done. Had the field offices performed these reconciliations, many of the discrepancies may have been identified and corrected prior to the inventory reconciliations performed by MVP Section auditors. Failure of the field offices to submit accurate daily inventory reports and reconcile physical inventory reports to perpetual records results in the use of state resources to identify discrepancies which should have been identified by the field offices.

- B. The division does not monitor field offices to ensure license plates and tabs are issued in numerical sequence. We noted several instances in which field offices apparently did not sell inventory items in sequential order. The department's Internal Audit Section has also noted this situation. The CAB procedures do not require field representatives to review for inventory items sold out of sequential order. In addition, while performing inventory reconciliations and posting inventory sales to the DMVI system, MVP Section auditors may note instances in which the field offices did not sell inventory items in sequential order. However, the auditors do not routinely review for this situation and inventory items sold out of sequential order are not investigated and resolved.

The division has identified the sale of transfer tabs out of order as a red flag to potential fraudulent transactions. Failure to monitor the sequential issuance of inventory items increases the risk that irregularities will not be detected in a timely manner.

- C. Field offices are charged for all inventory items that remain unaccounted for after the inventory reconciliation process is complete. The DMV charges a set rate, based on the average registration or transfer fee related to each unaccounted for inventory item. During our review we noted the following:

- 1) The DMV does not investigate field offices with significant inventory charges. Field offices were charged for 7,537 unaccounted inventory items issued to the field offices during the period January 1, 1999 through April 5, 2001. Some field offices were charged for a significant number of items during this period.

During our review of inventory charges, we noted four inventory items charged to two fee offices which were actually sold to DMV customers. The fee offices apparently collected a total of \$1,343 in sales taxes, license fees, and title fees for these transactions, but did not report these collections to the DMV or deposit the amounts into the DOR collection account. Since the fee offices did not report these inventory items as sold, they were charged after the inventory reconciliation process. The fee

offices were charged a total of \$109 for these items, \$1,234 less than actual collections due to the state and local governments. Both of these fee offices had been charged for numerous inventory items during the time period reviewed. Our review of eight field offices in which the Internal Audit Section identified misappropriation noted that seven of the offices had some of the highest inventory charges during the period January 1, 1999 to April 5, 2001.

Unaccounted for inventory items is an indication of possible misappropriation of funds by the field offices.

- 2) Adjustments can be made to field office inventory charges at the discretion of the CAB. There was no documentation supporting one inventory charge reduction of approximately \$104,000 for 3,889 tabs unaccounted for by a branch office. In addition, inventory reductions were made for 100 tabs missing at each of two fee offices for which documentation was received months after the fee offices were required to report the items as missing. Adjustments to inventory charges should be made based on adequate supporting documentation.

- D. Instances have been noted in which field offices are misusing the ability to code inventory items as missing. Field offices are required to report items that were not received in their inventory order and are not charged for the items reported as missing.

Several license plate numbers we reviewed which were reported as missing by the field offices had actually been issued to DMV customers. One plate reported as missing had been issued and the monies collected were not deposited in the DOR collection account. The Internal Audit Section noted another fee office using similar procedures to misappropriate funds. We noted other instances in which items were reported as missing to avoid being charged for the items. These items were not correctly reported on daily inventory reports and would have been unaccounted for during the inventory reconciliations. This situation was also noted in a branch office internal audit report. Frequent reporting of inventory items as missing could be used by fee offices to avoid being charged for unaccounted inventory items or an indication of misappropriation of funds.

WE RECOMMEND the department:

- A. Enforce the CAB policy requiring field offices to reconcile their inventory records.
- B. Develop and implement procedures to monitor the sequential issuance of inventory items.
- C.1. Review field offices with high inventory charges.

- C.2. Ensure adequate documentation is maintained to support reductions to inventory charges.
- D. Review field offices with an unusual number of inventory items reported as missing.

AUDITEE'S RESPONSE

- A&B. CAB management agrees that it is crucial to account for all inventory items assigned to field offices. CAB is in the process of developing a new field representative report and procedures that will require field personnel to review the inventory records of all field offices. The anticipated implementation date is July 1, 2002.*
- C.1. DVSB and CAB management agrees that field offices with high inventory charges should be reviewed to determine that adequate documentation is included to support all adjustments made to field office inventory charges. It is CAB's current practice to notify the department's Internal Audit bureau when high inventory charges are noted in a field office. The CAB will continue to utilize the department's Internal Audit bureau to resolve any issue of a field office improperly handling inventory.*
- C.2. DVSB and CAB management agrees that the appropriate supporting documentation and authorization should be present prior to adjusting any field office's inventory charges. The DVSB and CAB will work together to develop an internal procedure that will require our employees to witness the appropriate documentation and authorization prior to adjusting any field office inventory. This procedure will be implemented on or before July 1, 2002.*
- D. The CAB management agrees that it is important to review any field office that has an unusual number of inventory items reported as missing. This issue is brought to light when the DVSB Auditors perform the bi-annual inventory reconciliation. CAB will develop and implement a formal procedure by July 1, 2002, that will require the field representatives to work with the field offices to resolve identified concerns.*

5. Motor Vehicle Lease/Rental Companies
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Section 144.070 (5) and 144.440 (5), RSMo 2000, allows any taxpayer engaged in the business of renting or leasing motor vehicles, trailers, boats, or outboard motors, which are to be used exclusively for rental or lease purposes, to have the option of paying sales or use tax, respectively, on items to be leased or rented at the point of registration or to apply as a lease/rental company and pay sales or use tax as the items are being leased or rented. Lease/rental companies choosing to collect and submit taxes on the amount charged for each rental or lease agreement must apply to the DMV for a permit to operate as a leasing company. These companies must claim exemption twelve on the title applications and submit sales and use tax collections to the Division of Taxation and Collection based on the lease/rental proceeds. During the year ended June 30, 2001,

approximately 76,000 titles were issued for transactions which claimed exemption twelve. During our review, we noted the following:

- A. The Division of Taxation cannot effectively monitor whether sales or use taxes are recovered for the companies claiming exemption twelve on title applications. The current system of reporting sales and use taxes to the Division of Taxation and Collection does not require these companies to identify the particular motor vehicles, trailers, boats, or outboard motors on which the sales and use taxes were collected on lease/rental proceeds. Therefore, the department cannot determine whether the state is collecting at least as much sales tax by allowing lease/rental companies to collect and submit taxes on the amount charged for each rental or lease agreement as would have been collected if the sales or use taxes had to be paid upon titling the vehicles.

We noted three of twenty lease/rental companies reviewed which claimed exemption twelve had not submitted any sales or use tax payments for the location and time period reviewed. Approximately 1,400 titles were issued to these three companies during the year ended June 30, 2001. It is possible the vehicles had been moved to and reported under a different location; however, this information is not reported to the department.

Companies which did not pay sales or use taxes at the point of registration should be reviewed on a test basis to determine whether the state is recovering the sales or use tax that would have been collected had the companies paid at the point of registration. If the department finds the sales or use taxes are not being recovered, a change in the law should be pursued.

- B. The DMV does not always ensure that companies claiming exemption twelve on title applications have an active sales tax account. One of the companies reviewed which claimed exemption twelve titled two vehicles that were purchased in March and April 2001. However, the company had cancelled its sales tax account with the Division of Taxation and Collection effective September 30, 2000, and as a result, would not have submitted sales or use taxes after that date. Total state sales taxes lost, based on the sales price of these two vehicles was \$5,285.

Failure to ensure companies claiming exemption twelve have an active sales tax account results in lost revenue to the state.

- C. Some lease/rental locations for two of twenty companies we reviewed were not correctly coded as lease/rental locations by the Division of Taxation and Collection, resulting in incorrect distribution of state sales taxes. The Division of Taxation and Collection allocates one-half of the state sales tax proceeds received from MV lease/rental companies to the Motor Fuel Tax Fund in accordance with Article IV, Section 30(b)2. of the Missouri Constitution, which requires one-half of the proceeds from the state sales tax on all motor vehicles, trailers,

motorcycles, mopeds, and motortricycles be dedicated for highway and transportation use. Failure to properly code lease/rental locations on the Missouri Integrated Tax System results in the inappropriate allocation of state sales taxes.

WE RECOMMEND the department:

- A. Review companies claiming exemption twelve on a test basis to determine whether the state is recovering sales or use taxes by allowing lease/rental companies to collect and submit taxes on the amount charged for each rental or lease agreement. If the results of the review reveal sales or use taxes are not recovered, a change in the law should be pursued.
- B. Ensure companies claiming exemption twelve have an active sales tax account.
- C. Properly code lease/rental companies to ensure appropriate distribution of sales and use tax monies.

AUDITEE'S RESPONSE

- A. *Division of Taxation and Collection management agrees with this recommendation. Before a determination can be made that legislation is necessary, the division will conduct a study to determine the level of tax reporting compliance of leasing companies claiming exemption twelve. This study will be completed prior to the commencement of the 2003 legislative session.*
- B. *Division of Taxation and Collection management agrees with this recommendation. The division will attempt to ensure that lease rental companies have active sales tax accounts. In the instance cited in the audit, the company that claimed exemption twelve did have an active sales tax account. The account was later closed at the direction of the business. Because this is a large, multi-division company, it is possible that the company is reporting the tax on its leases through a different tax account. The division will follow up to determine whether the tax is being reported under a different sales tax account.*
- C. *Division of Taxation and Collection management agrees with this recommendation. The division has determined that the accounts in the finding were miscoded through employee error. We will correct the accounts and re-emphasize our existing procedures for properly coding motor vehicle leasing companies to all who are responsible for sales/use tax registration.*

Information on the General Registration System (GRS) is not always accurate and up-to-date. A record of all Missouri motor vehicle transactions is maintained on the GRS. The GRS is accessible to various law enforcement officials in the state through the Missouri Uniformed Law Enforcement System (MULES) and other subscription systems. The following instances in which the GRS includes inaccurate information were noted:

A. As of July 28, 2001, approximately 549,000 motor vehicle transactions were on the Error File and, as a result, were not recorded on the GRS. MVP Section examiners enter title and registration transactions into the Life Works system. This information is then transferred to a mainframe system for editing and ultimately updates the GRS. When the mainframe system detects an error, the transaction is posted to an Error File rather than the GRS, and an error brief is generated. During our review, we noted the following:

- 1) During the years ended June 30, 2001 and 2000, approximately nine and twenty-four percent, respectively, of title applications entered by MVP Section personnel were posted to the Error File. Each error brief generated by the Error File must be researched and corrected before the transaction is posted to the GRS. This research can take a significant amount of time.

Although significant improvement has been made, the DMV should continue to investigate the reasons for errors and develop procedures to reduce the rate of errors.

- 2) Approximately 306,000 of the transactions on the Error File were at least ten months old. Division personnel indicated that prior to September 2001, few error briefs had been recently researched. Failure to resolve transactions on the Error File results in incomplete and inaccurate GRS records and increases the risk that misappropriation of funds by field offices will not be detected in a timely manner. In addition, customers whose transactions are on the Error File do not receive license renewal notifications.

During September 2001, the DMV established a team of examiners to resolve the transactions on the Error File. The DMV indicated they plan to have these errors resolved by April 15, 2002.

- B. The mainframe system's internal edit checks detect instances in which a license plate number is recorded as issued to two different customers. However, if the expiration year recorded for each customer is different, the transactions are not recorded on the Error File and the incorrect transaction is posted to the GRS. To ensure the GRS is accurate, edit checks should identify all duplicate license plate numbers issued.
- C. Missing, voided, and defective license plates are not being recorded on the GRS. To account for license plates noted by the field offices as missing, voided, or defective, CAB procedures require the field offices to complete an Invalid License Plate Report. During our review, we noted numerous missing, voided, or defective license plate numbers; however, DMV records indicate only two Invalid License Plate Reports had been received during the period of November 2000 to April 2001. To ensure the GRS is accurate and complete, the DMV should ensure Invalid License Plate Reports are received and posted to the GRS.

WE RECOMMEND the department:

- A. Establish procedures to reduce the number of transactions posted to the Error File. In addition, all transactions on the Error File should be corrected on a timely basis
- B. Ensure edit checks identify all duplicate license plate numbers recorded on the GRS. In addition, duplicate license plate numbers currently on the GRS should be researched and resolved.
- C. Ensure that field offices submit Invalid License Plate Reports for missing, voided, and defective license plates as required by CAB policy.

AUDITEE'S RESPONSE

- A. *The DVSB management agrees with this recommendation and currently has detailed policies and procedures in place for employees to use as a resource when processing registration and title applications. The DVSB management will continue to look for methods to reduce the number of errors posted to the error file. Currently, the DVSB has a team of employees working on possible solutions for reducing the number of transactions that post to the error file. The team will be presenting the results of their findings to DVSB management by June 2002.*
- B. *The DVSB management agrees with this recommendation and will request the Information Technology Bureau to generate a list of duplicate license plate numbers in order to correct these errors. Since the FASTR system will not allow duplicate license plate numbers to be recorded, this issue will be resolved with FASTR's implementation.*

- C. *The DVSB management agrees with this recommendation and will develop a policy to address this issue. The policy will be implemented by July 1, 2002, and will require the DVSB to notify the appropriate CAB representative when field offices are not submitting the Invalid License Plate Reports for missing, voided, and defective license plates as required by CAB policy.*

This report is intended for the information of the management of the Department of Revenue, Division of Motor Vehicle and Drivers Licensing and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

DEPARTMENT OF REVENUE
DIVISION OF MOTOR VEHICLE AND DRIVERS LICENSING
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Department of Revenue was created by Article IV, Section 12, of the Missouri Constitution. The Department of Revenue was given authority and responsibility to collect all monies due to the government of Missouri as provided by law. The Department of Revenue is headed by the director of revenue who is appointed by the governor with the advice and consent of the Senate. The laws governing some of the duties of the director of revenue are set forth in Section 136.030(2), RSMo 2000. This section, in brief, provides that the director of revenue shall make provisions for the collection of motor vehicle registration fees, sales and use tax, motor vehicle drivers' license tax, and all other taxes. To facilitate the registration of each motor vehicle, trailer, and marine craft in the state, and the licensing of all operators of motor vehicles residing in this state, the Division of Motor Vehicle and Drivers Licensing (DMV) was established.

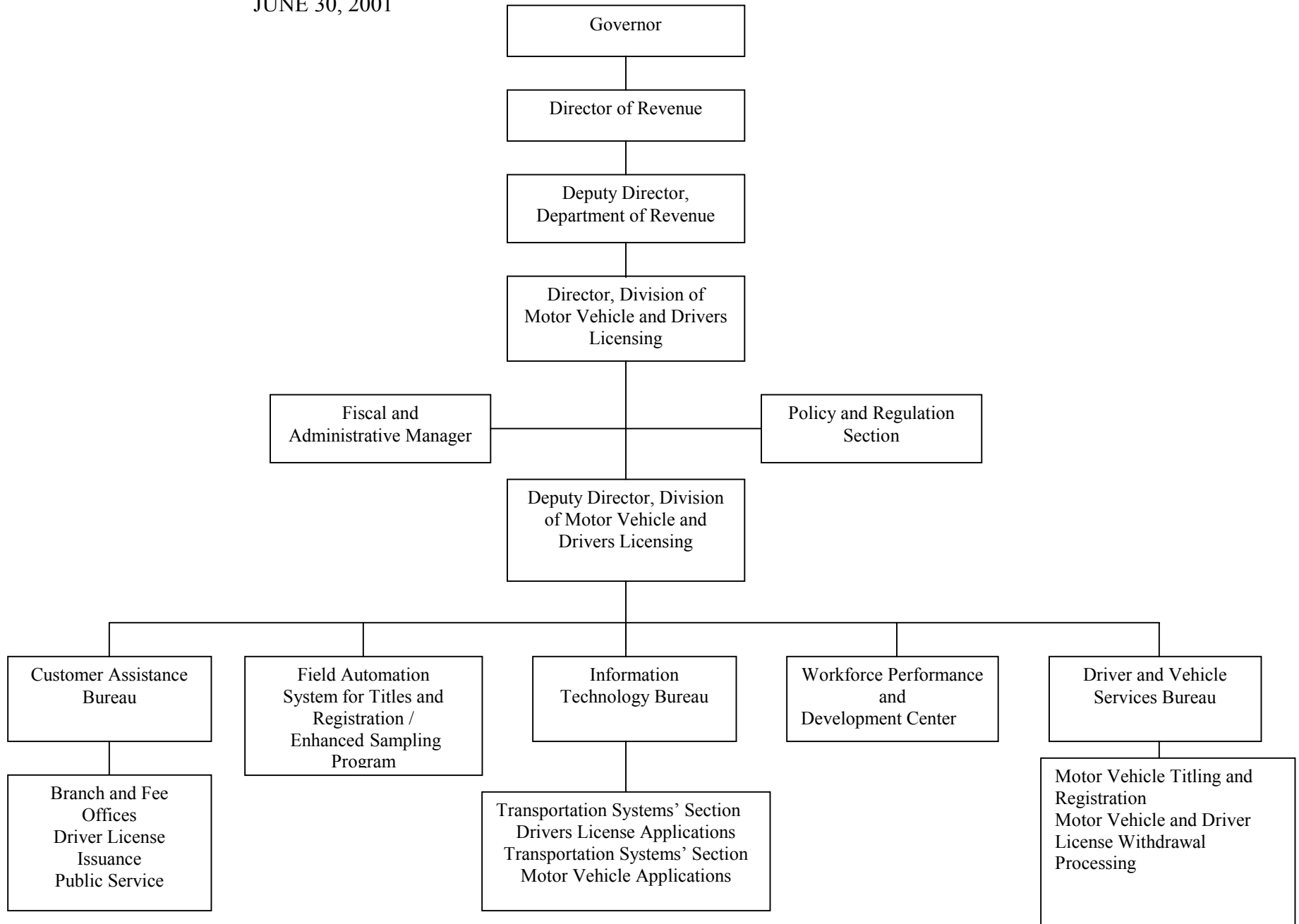
The DMV operations are set forth in Chapters 301, 302 and 306, RSMo 2000. These chapters document the regulations for motor vehicles and marine craft in the state. To accomplish these responsibilities, the division employed approximately 573 employees within the central office and approximately 206 employees within the branch offices as of June 30, 2001. The Customer Assistance Bureau is responsible for administering the operation of the 11 branch offices and approximately 170 fee offices throughout the state. Section 32.040, RSMo 2000, provides the director of revenue with the authority to establish and maintain permanent branch offices. The fee office agents are selected and appointed by the governor to act as agents of the Department of Revenue pursuant to Section 136.055, RSMo 2000.

The DMV issues titles for all Missouri motor vehicles, trailers, and marine craft; and issues and sells over 490 different types of license plates which can be classified into six major categories: passenger, truck, trailer, motorcycle, bus, and dealer. In 1997, the agencies distributed a multi-year plate that is renewed annually or bi-annually with the issuance of tabs and for the ensuing years. Dealer and three-year trailer plates are renewed by the issuance of a new plate. The personalized plate was also made available to the public in 1978 for an additional charge of \$15 per year.

The division issues four basic types of driver licenses: Class F (Operators), Class E (Chauffeurs), Class A, B, and C (Commercial), and Class M (Motorcycle Only). In addition, the division is responsible for administering the suspension or revocation of driver licenses for violations of state laws, and collecting driver license reinstatement fees.

Raymond Hune has held the position as Director of the DMV since 1993.

DEPARTMENT OF REVENUE
 DIVISION OF MOTOR VEHICLE AND DRIVERS LICENSING
 ORGANIZATION CHART
 JUNE 30, 2001



Appendix A

DEPARTMENT OF REVENUE
DIVISION OF MOTOR VEHICLE AND DRIVERS LICENSING
COMPARATIVE SCHEDULE OF RECEIPTS
MOTOR VEHICLE TRANSACTIONS

	Year Ended June 30,				
	2001	2000	1999	1998	1997
TAXES					
Sales Tax (State, Education, Conservation, Parks/Soil)	\$ 317,097,608	325,491,300	299,504,220	276,949,971	251,050,807
Local Taxes	178,577,348	182,586,708	162,524,966	146,082,874	130,104,378
Highway Use Taxes	52,744,301	55,101,470	50,915,886	50,349,477	49,444,846
DECALS					
Motor Fuel Tax-LP	216,464	236,448	265,339	258,565	273,033
Marine	1,889,687	1,984,356	1,922,259	1,987,710	1,924,417
ATV	273,943	243,877	206,229	197,419	148,733
REGISTRATIONS					
Passenger	104,166,974	79,096,884	78,488,222	78,571,359	78,899,052
Truck	61,356,270	50,874,239	49,100,706	47,847,707	47,331,789
Title	16,419,130	17,312,798	16,896,388	16,624,848	16,451,572
Trailer	5,696,303	5,763,022	5,011,806	5,257,633	5,124,572
Motorcycle	787,226	507,656	464,106	438,881	461,549
Bus	433,643	407,259	399,858	416,582	388,993
Documented vessel	61,103	65,402	62,349	54,176	47,368
Dealer	2,575,867	2,529,298	2,408,530	2,304,179	1,369,190
PLATES AND TABS					
Plate reservations	3,383,751	2,530,905	2,504,499	2,535,708	2,167,005
Replacement plates and tabs	641,523	577,695	513,266	292,862	380,604
MISCELLANEOUS					
Motor vehicle transactions	2,900,126	2,870,962	2,668,732	2,515,286	2,306,298
Marine transactions	47,945	67,259	45,537	45,460	46,292
ATV transactions	271,642	247,654	215,253	183,254	156,689
Manufactured home transactions	133,237	147,036	164,613	131,942	125,877
OTHER RECEIPTS					
Motor vehicle permits	3,843,377	3,516,074	3,210,412	2,981,107	2,941,470
Title and renewal penalties	14,065,424	14,042,236	13,315,267	12,181,043	12,190,702
Documented vessel in lieu tax	1,807,975	1,868,357	1,566,570	1,359,488	1,109,960
Information sales	325,662	423,533	355,846	252,373	259,245
Fax fees	4,478	8,724	8,888	9,129	8,546
Shortage/overage and bad check write-offs	0	(4,046)	(353)	(4,846)	(2,183)
Childrens Trust Fund donations	75,797	23,377	630	0	
WWII Memorial Trust Fund donations	10,915	0	0	0	0
Blindness Awareness Trust Fund donations	25,811	0	0	0	0
Miscellaneous	(5,730)	(590)	3,520	5,457	15,253
Total	\$ 769,827,796	748,519,892	692,743,547	649,829,643	604,726,056

Appendix B

DEPARTMENT OF REVENUE
DIVISION OF MOTOR VEHICLE AND DRIVERS LICENSING
COMPARATIVE SCHEDULE OF RECEIPTS
DRIVERS LICENSE TRANSACTIONS

	Year Ended June 30,				
	2001	2000	1999	1998	1997
LICENSES AND PERMITS					
Operators licenses	\$ 12,372,693	8,256,307	8,543,409	8,639,037	8,028,989
Chauffeurs licenses	2,296,876	1,588,875	1,709,527	1,430,093	1,569,179
Commercial licenses	2,961,387	1,609,405	1,677,531	1,668,929	1,382,515
Motorcycle licenses	1,208	638	420	533	413
Duplicate licenses	1,568,721	1,590,355	1,479,168	1,317,570	1,165,449
Valid without photo	13,904	10,463	29,783	31,475	33,263
Instruction permits	266,473	247,269	231,263	220,171	208,274
School bus permits	45,812	13,410	12,780	13,234	27,225
Student permits	13,608	15,992	15,046	14,576	16,568
Identification cards	985,483	1,316,479	1,214,898	1,051,290	849,247
Service charges	11,662	8,170	8,158	9,776	7,007
Commercial written and skills tests	250,270	250,045	238,808	226,035	200,610
Total receipts from licenses and permits	20,788,095	14,907,406	15,160,790	14,622,718	13,488,738
Reinstatement fees	3,047,667	4,313,221	6,311,025	5,826,623	4,844,027
Drivers record checks	1,372,179	1,458,313	1,923,108	2,261,327	3,133,051
Third Party Tester Application Fees	5,700	6,300	5,100	5,400	4,900
Overages	17,950	6,305	2,729	2,315	1,990
Blindness Awareness Fund donations	93,134	0	0	0	0
Organ Donor Contributions	376,293	399,724	375,089	371,359	355,121
Miscellaneous	50,279	46,294	43,708	44,759	97,759
Total	\$ 25,751,298	21,137,564	23,821,548	23,134,501	21,925,586

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